

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended December 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Charter Township of Portsmouth	County Bay
Audit Date December 31, 2006	Opinion Date January 12, 2007	Date Accountant Report Submitted to State: January 15, 2007	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature 			

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

January 12, 2007

To the Township Board
Charter Township of Portsmouth
Bay County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Charter Township of Portsmouth, Bay County, Michigan as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Charter Township of Portsmouth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the Charter Township of Portsmouth, Bay County, Michigan as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, of these activities and funds for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2006

The Management's Discussion and Analysis report of the Charter Township of Portsmouth covers the Township's financial performance during the year ended December 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at December 31, 2006, totaled \$1,417,644.95 for governmental activities and \$3,897,376.08 for business-type activities.

Overall revenues were \$1,330,995.52 (\$771,876.57 from governmental activities and \$559,118.95 from business-type activities). Overall Township activities had a \$260,877.33 increase in net assets in 2006.

Taxable value increased by \$4,722,682.00.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities and business-type activities. These include the General Fund, the Water Fund and the Sewer Fund.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental Funds: Some of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental funds include the General Fund.

Business-Type Funds: The Township has a Water Fund and a Sewer Fund which includes the activity of providing revenue to pay bond debt.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

We continue to pay required amounts on our sewer and water loans as special assessments and debt service are collected.

The sewer bond (\$7,250,000.00) has a principal balance of \$2,540,000.00 with payments scheduled through 2012. Special assessment and debt service revenue appear to be sufficient to cover these bond payments.

1977 Merritt/Portsmouth Water Bond Issue (Portsmouth share \$233,436.00): This issue has a principal balance of \$99,647.00 with payments scheduled through 2016. Debt service revenue appears to be sufficient to cover these payments.

1998 Merritt/Portsmouth Water Bond Issue (Portsmouth share \$1,316,000.00): This issue has a principal balance of \$868,491.54 with payments scheduled through 2018. Special assessment and debt service revenue appears to be sufficient to cover these payments.

Our cash position in both governmental and business-type activities remain strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant are Fire Protection which incurred expenses of \$83,077.72 and Law Enforcement with expenditures of \$75,278.92. Contracted Trash Collection is a significant expenditure each year, \$149,787.50 in 2006. These funds are provided by a special assessment, updated yearly, on all residences.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$0 in capital assets.

The Township's business-type activities invested \$0 in capital assets.

The Township's governmental activities paid \$0 of principal on long-term debt.

The Township's business-type activities paid \$76,748.28 of principal on the Water Bonds payable, and \$395,000.00 of principal on the Sewer Bonds payable.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2006

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income. We continue to grow in taxable values with little demand for infrastructure, except good roads and water, where available.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenue it receives. If you have any questions about this report or need additional information, we welcome you to contact the Township office at 989-892-7221.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash on hand	100 00	-	100 00
Cash in bank	698 918 27	510 710 38	1 209 628 65
Taxes receivable	203 503 58	143 541 58	347 045 16
Special assessments receivable	-	846 565 06	846 565 06
Internal balances	70 040 85	(70 040 85)	-
Due from State of Michigan	42 916 00	-	42 916 00
	<u>1 015 478 70</u>	<u>1 430 776 17</u>	<u>2 446 254 87</u>
Total Current Assets			
NON-CURRENT ASSETS:			
Capital Assets	1 291 011 33	10 042 038 00	11 333 049 33
Less: Accumulated Depreciation	<u>(463 406 30)</u>	<u>(2 960 870 00)</u>	<u>(3 424 276 30)</u>
	<u>827 605 03</u>	<u>7 081 168 00</u>	<u>7 908 773 03</u>
Total Non-current Assets			
TOTAL ASSETS	<u><u>1 843 083 73</u></u>	<u><u>8 511 944 17</u></u>	<u><u>10 355 027 90</u></u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	19 207 58	-	19 207 58
Accrued payroll taxes	2 276 83	-	2 276 83
Deferred revenue	403 954 37	1 106 429 55	1 510 383 92
	<u>425 438 78</u>	<u>1 106 429 55</u>	<u>1 531 868 33</u>
Total Current Liabilities			
NON-CURRENT LIABILITIES:			
Contracts payable	-	3 508 138 54	3 508 138 54
	<u>-</u>	<u>3 508 138 54</u>	<u>3 508 138 54</u>
Total Non-current Liabilities			
Total Liabilities	<u><u>425 438 78</u></u>	<u><u>4 614 568 09</u></u>	<u><u>5 040 006 87</u></u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	827 605 03	3 573 029 46	4 400 634 49
Restricted for debt service	-	324 346 62	324 346 62
Unrestricted	590 039 92	-	590 039 92
	<u>1 417 644 95</u>	<u>3 897 376 08</u>	<u>5 315 021 03</u>
Total Net Assets			
TOTAL LIABILITIES AND NET ASSETS	<u><u>1 843 083 73</u></u>	<u><u>8 511 944 17</u></u>	<u><u>10 355 027 90</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended December 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	10 100 00	-	(10 100 00)
General government	211 304 73	89 291 56	(122 013 17)
Public safety	220 865 88	-	(220 865 88)
Public works	199 438 58	172 537 00	(26 901 58)
Recreation and culture	979 99	-	(979 99)
Other	<u>58 512 55</u>	<u>-</u>	<u>(58 512 55)</u>
Total Governmental Activities	<u>701 201 73</u>	<u>261 828 56</u>	<u>(439 373 17)</u>
Business-Type Activities:			
Water and sewer	<u>368 916 46</u>	<u>232 688 11</u>	<u>-</u>
Total Business-Type Activities	<u>368 916 46</u>	<u>232 688 11</u>	<u>-</u>
Total Government	<u>1 070 118 19</u>	<u>494 516 67</u>	<u>(439 373 17)</u>
General Revenues:			
Property taxes			191 679 99
State revenue sharing			262 555 35
Interest			32 086 57
Miscellaneous			<u>23 726 10</u>
Total General Revenues			<u>510 048 01</u>
Change in net assets			70 674 84
Net assets, beginning of year			<u>1 346 970 11</u>
Net Assets, End of Year			<u>1 417 644 95</u>

The accompanying notes are an integral part of these financial statements.

Business-Type Activities	Total
Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
-	(10 100 00)
-	(122 013 17)
-	(220 865 88)
-	(26 901 58)
-	(979 99)
-	(58 512 55)
-	(439 373 17)
(136 228 35)	(136 228 35)
(136 228 35)	(136 228 35)
(136 228 35)	(575 601 52)
-	191 679 99
-	262 555 35
83 346 84	115 433 41
243 084 00	266 810 10
326 430 84	836 478 85
190 202 49	260 877 33
3 707 173 59	5 054 143 70
3 897 376 08	5 315 021 03

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
December 31, 2006

	<u>General</u>
<u>Assets</u>	
Cash on hand	100 00
Cash in bank	509 326 95
Taxes receivable	393 074 60
Due to other funds	70 061 15
Due from State of Michigan	<u>42 916 00</u>
Total Assets	<u>1 015 478 70</u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Accounts payable	19 207 58
Accrued payroll taxes	2 276 83
Deferred revenue	<u>403 954 37</u>
Total liabilities	<u>425 438 78</u>
Fund equity:	
Fund balances:	
Unreserved:	
Undesignated	<u>590 039 92</u>
Total fund equity	<u>590 039 92</u>
Total Liabilities and Fund Equity	<u>1 015 478 70</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
December 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	590 039 92
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	1 291 011 33
Accumulated depreciation	<u>(463 406 30)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>1 417 644 95</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS

Year ended December 31, 2006

	<u>General</u>
Revenues:	
Property taxes	191 679 99
Licenses and permits	52 327 66
State revenue sharing	262 555 35
Charges for services	36 963 90
Interest	32 086 57
Special assessments	172 537 00
Miscellaneous	<u>23 726 10</u>
Total Revenues	<u>771 876 57</u>
Expenditures:	
Legislative:	
Township Board	10 100 00
General government:	
Supervisor	17 420 00
Elections	6 121 23
Assessor	18 333 34
Clerk	16 887 91
Board of Review	1 043 00
Treasurer	16 700 00
Building and grounds	39 581 60
Unallocated	83 793 02
Public safety:	
Law enforcement	75 278 92
Fire protection	83 077 72
Inspection	24 228 05
Planning and zoning	10 938 20
Public works:	
Highways and streets	25 914 27
Drains	23 736 81
Sanitation	149 787 50
Other:	
Retirement plan	27 702 55
Insurance	<u>30 810 00</u>
Total expenditures	<u>661 454 12</u>
Excess of revenues over expenditures	110 422 45
Fund balance, January 1	<u>479 617 47</u>
Fund Balance, December 31	<u><u>590 039 92</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended December 31, 2006

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	110 422 45
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(39 747 61)
Capital Outlay	<u>-</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>70 674 84</u></u>
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The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

STATEMENT OF NET ASSETS – BUSINESS-TYPE FUNDS
December 31, 2006

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash in bank	353 132 14	157 578 24	510 710 38
Taxes receivable	39 588 58	103 953 00	143 541 58
Special assessments receivable	536 288 63	310 276 43	846 565 06
Internal balances	<u>-</u>	<u>(70 040 85)</u>	<u>(70 040 85)</u>
Total Current Assets	<u>929 009 35</u>	<u>501 766 82</u>	<u>1 430 776 17</u>
NON-CURRENT ASSETS:			
Capital Assets	2 362 505 00	7 679 533 00	10 042 038 00
Less: Accumulated Depreciation	<u>(582 008 00)</u>	<u>(2 378 862 00)</u>	<u>(2 960 870 00)</u>
Total Non-current Assets	<u>1 780 497 00</u>	<u>5 300 671 00</u>	<u>7 081 168 00</u>
TOTAL ASSETS	<u><u>2 709 506 35</u></u>	<u><u>5 802 437 82</u></u>	<u><u>8 511 944 17</u></u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Deferred revenue	<u>621 553 45</u>	<u>484 876 10</u>	<u>1 106 429 55</u>
Total Current Liabilities	<u>621 553 45</u>	<u>484 876 10</u>	<u>1 106 429 55</u>
NON-CURRENT LIABILITIES:			
Contracts payable	<u>968 138 54</u>	<u>2 540 000 00</u>	<u>3 508 138 54</u>
Total Non-current Liabilities	<u>968 138 54</u>	<u>2 540 000 00</u>	<u>3 508 138 54</u>
Total Liabilities	<u>1 589 691 99</u>	<u>3 024 876 10</u>	<u>4 614 568 09</u>
NET ASSETS:			
Invested in Capital Assets,			
Net of Related Debt	812 358 46	2 760 671 00	3 573 029 46
Restricted for debt service	<u>307 455 90</u>	<u>16 890 72</u>	<u>324 346 62</u>
Total Net Assets	<u>1 119 814 36</u>	<u>2 777 561 72</u>	<u>3 897 376 08</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>2 709 506 35</u></u>	<u><u>5 802 437 82</u></u>	<u><u>8 511 944 17</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –
BUSINESS-TYPE FUNDS
Year ended December 31, 2006

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for services:			
Special assessments	<u>61 997 45</u>	<u>170 690 66</u>	<u>232 688 11</u>
Total Operating Revenues	<u>61 997 45</u>	<u>170 690 66</u>	<u>232 688 11</u>
OPERATING EXPENSES:			
Contracted services	18 565 84	-	18 565 84
Depreciation	<u>56 773 00</u>	<u>192 043 00</u>	<u>248 816 00</u>
Total Operating Expenses	<u>75 338 84</u>	<u>192 043 00</u>	<u>267 381 84</u>
Operating Income (loss)	<u>(13 341 39)</u>	<u>(21 352 34)</u>	<u>(34 693 73)</u>
NON-OPERATING REVENUES (EXPENSES):			
Transfers from Bay Co. Water and Sewer	8 734 00	234 350 00	243 084 00
Interest income	50 604 78	32 742 06	83 346 84
Interest expense	<u>(42 834 62)</u>	<u>(58 700 00)</u>	<u>(101 534 62)</u>
Total Non-operating Revenues (Expenses)	<u>16 504 16</u>	<u>208 392 06</u>	<u>224 896 22</u>
Change in net assets	3 162 77	187 039 72	190 202 49
Net assets, beginning of year	<u>1 116 651 59</u>	<u>2 590 522 00</u>	<u>3 707 173 59</u>
Net Assets, End of Year	<u><u>1 119 814 36</u></u>	<u><u>2 777 561 72</u></u>	<u><u>3 897 376 08</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS-TYPE FUNDS
Year ended December 31, 2006

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	61 997 45	170 690 66	232 688 11
Cash payments to suppliers for goods and services	<u>(18 565 84)</u>	<u>-</u>	<u>(18 565 84)</u>
Net cash provided (used) by operating activities	<u>43 431 61</u>	<u>170 690 66</u>	<u>214 122 27</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Net increase (decrease) in cash from CTC Fund recognized in deferred revenue	<u>11 779 07</u>	<u>14 475 57</u>	<u>26 254 64</u>
Net cash provided (used) for non-capital financing activities	<u>11 779 07</u>	<u>14 475 57</u>	<u>26 254 64</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Transfers from Bay Co. W & S	8 734 00	234 350 00	243 084 00
Principal on contracts payable	(46 748 28)	(395 000 00)	(471 748 28)
Interest on contracts payable	<u>(42 834 62)</u>	<u>(58 700 00)</u>	<u>(101 534 62)</u>
Net cash provided (used) by capital and related financing activities	<u>(110 848 90)</u>	<u>(219 350 00)</u>	<u>(330 198 90)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	<u>50 604 78</u>	<u>32 742 06</u>	<u>83 346 84</u>
Net increase (decrease) in cash	(5 033 44)	(1 441 71)	(6 475 15)
Cash beginning of year	<u>358 165 58</u>	<u>159 019 95</u>	<u>517 185 53</u>
Cash End of Year	<u><u>353 132 14</u></u>	<u><u>157 578 24</u></u>	<u><u>510 710 38</u></u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Income (loss) from operations	(13 341 39)	(21 352 34)	(34 693 73)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:			
Depreciation	<u>56 773 00</u>	<u>192 043 00</u>	<u>248 816 00</u>
Net Cash Provided (Used) in Operating Activities	<u><u>43 431 61</u></u>	<u><u>170 690 66</u></u>	<u><u>214 122 27</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Portsmouth, Bay County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Charter Township of Portsmouth. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Funds

These funds are used to account for assets held as an agent for others.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds are charges to customers for services. The enterprise funds also recognize as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes are accrued in the year in which they are levied. The tax levy is recorded as deferred revenue until the subsequent year when it becomes available for use.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was 2.40 mills, and the taxable value was \$79,807,228.00.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	30-60 years
Vehicles and equipment	3-35 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>1 485 196 04</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>1 412 340 87</u>
Total Deposits	<u>1 512 340 87</u>

The Charter Township of Portsmouth did not have any investments as of December 31, 2006.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental and Business-Type activities for the current year was as follows:

	Balance 1/1/06	Additions	Deletions	Balance 12/31/06
<u>Governmental Activities:</u>				
Land	212 975 00	-	-	212 975 00
Buildings	299 300 00	-	-	299 300 00
Equipment	778 736 33	-	-	778 736 33
Total	1 291 011 33	-	-	1 291 011 33
Accumulated Depreciation	(423 658 69)	(39 747 61)	-	(463 406 30)
Net Governmental Capital Assets	867 352 64	(39 747 61)	-	827 605 03
<u>Business-Type Activities:</u>				
Water System	2 362 505 00	-	-	2 362 505 00
Sewer System	7 679 533 00	-	-	7 679 533 00
Total	10 042 038 00	-	-	10 042 038 00
Accumulated Depreciation	(2 712 054 00)	(248 816 00)	-	(2 960 870 00)
Net Business-Type Capital Assets	7 329 984 00	(248 816 00)	-	7 081 168 00

Note 5 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	20 30	Agency	20 30
General	70 040 85	Sewer	70 040 85
General	393 074 60	Current Tax Collection	652 939 09
Sewer	174 599 67		
Water	85 264 82		
Total	723 000 24	Total	723 000 24

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 6 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	Balance 1/1/06	Additions	Deductions	Balance 12/31/06
Contracts payable – 1977 Bay County Water	108 381 00	-	8 734 00	99 647 00
Contract payable – 1998 Bay County Water	936 505 82	-	68 014 28	868 491 54
Contract payable – 1990 Bay County Sewage – Series I	2 485 000 00	-	330 000 00	2 155 000 00
Contract payable – 1990 Bay County Sewage – Series II	450 000 00	-	65 000 00	385 000 00
Total	<u>3 979 886 82</u>	<u>-</u>	<u>471 748 28</u>	<u>3 508 138 54</u>

Note 7 – Contract Payable – 1977 Bay County Water Supply System (Merritt – Portsmouth)

On May 19, 1977, pursuant to an agreement with the Townships of Portsmouth and Merritt, Bay County, issued \$588,000.00 of its bonds to finance the cost of acquisition of water facilities in the Townships. The Township of Portsmouth is responsible for \$233,436.00, 39.7% of the project, and the Township of Merritt is responsible for \$354,564.00, 60.3% of the project. Under this agreement, the Township becomes liable for its share of the bond issue and interest thereon in the event that revenues derived from charges to the system users are insufficient to pay therefore. As of December 31, 2006, the bonds outstanding amounted to \$251,000.00 plus interest. Portsmouth Township's portion of the bonds outstanding is \$99,647.00 and they are backed by the full faith and credit of the Township.

In addition, the terms of the agreement provide for the Township to be liable for any deficiencies in user charges necessary to cover operation and maintenance of the system, as well as any repairs and replacements or extensions and improvements that are made for the benefit of the Township.

The agreement also provides that the County will own the system, and that the system will be operated by the Board of County Road Commissioners as the County's agent until the lessor of forty years or the retirement of all the bonds and related interest. Upon the occurrence of one of these events, the agreement is terminated and title to the system is transferred to the Townships of Portsmouth and Merritt based on their pro rata portion. The following is the detail of bonds outstanding at December 31, 2006. In addition, the Township is obligated to pay its pro rata share of the interest.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 7 – Contract Payable – 1977 Bay County Water Supply System (Merritt – Portsmouth) (continued)

<u>Bond Numbers</u>	<u>Due Date</u>	<u>Total Principal</u>	<u>Portsmouth Township Portion</u>
338-359	4/1/07	22,000	8,734
360-383	4/1/08	24,000	9,528
384-409	4/1/09	26,000	10,322
410-435	4/1/10	26,000	10,322
436-461	4/1/11	26,000	10,322
462-487	4/1/12	26,000	10,322
488-513	4/1/13	26,000	10,322
514-538	4/1/14	25,000	9,925
539-563	4/1/15	25,000	9,925
564-588	4/1/16	25,000	9,925
Total Outstanding		<u>251,000</u>	<u>99,647</u>

Note 8 – Contract Payable - 1998 Bay County Water Supply System (Merritt-Portsmouth Extension)

On May 1, 1998, the Township entered into an agreement with Bay County to acquire and construct water storage facilities in the Township. Pursuant to the agreement Bay County issued its bonds to finance the cost of the project. Under the agreement the Township pledges its full faith and credit for payment of the bond issue and, interest thereon in the event that revenues derived from charges to the systems users are insufficient to pay therefor. As of December 31, 2006, the Township of Portsmouth's portion of the bonds outstanding amounted to \$868,491.54 plus interest. The following is a detail of bonds outstanding at December 31, 2006. In addition the Township is obligated to pay interest on the bonds.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
5/1/07	4.70	68,014.32
5/1/08	4.70	68,014.32
5/1/09	4.70	70,630.25
5/1/10	4.70	70,630.25
5/1/11	4.70	70,630.25
5/1/12	4.75	70,630.25
5/1/13	4.75	73,246.19
5/1/14	4.75	73,246.19
5/1/15	4.75	75,862.12
5/1/16	4.75	75,862.12
5/1/17	4.75	75,862.12
5/1/18	4.75	75,863.12
Total Outstanding		<u>868,491.54</u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 9 – Contract Payable – 1990 Bay County Sewage Disposal System (Portsmouth Charter Township)

On November 1, 1990, the Township entered into an agreement with Bay County to acquire and construct sanitary sewage facilities in the Township. Pursuant to the agreement Bay County issued \$6,000,000.00 and \$1,250,000.00 of its bonds to finance the cost of the project. Under the agreement the Township pledged its full faith and credit for payment of the bond issues and interest thereon in the event that revenues derived from charges to the systems users are insufficient to pay therefore. As of December 31, 2006, the bonds outstanding amounted to \$2,540,000.00 plus interest. The following is the detail of the bonds outstanding at December 31, 2006. In addition the Township is obligated to pay interest on the bonds.

<u>Due Date</u>	<u>Total Principal</u>
10/1/07	405,000
10/1/08	410,000
10/1/09	415,000
10/1/10	425,000
10/1/11	435,000
10/1/12	450,000
Total Outstanding	<u>2,540,000</u>

Note 10 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 11 – Retirement Plan

The Township has a retirement plan whereby annuities are purchased on behalf of Township employees. All employees, with certain exceptions, are eligible for coverage. Payments to the plan are based on the annual earnings of participating employees. Under the plan, the Township pays three-fourths of the contributions and the participating employees pay the remaining one-fourth of contributions. Employees may contribute an additional 10% of their earnings on a voluntary basis. The Township's share of retirement contributions for the year ended December 31, 2006, was \$27,702.55.

Note 12 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 13 – Building Permits

As of December 31, 2006, the Township had building permit revenues of \$29,308.05 and building permit expenses of \$24,228.05.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	180 000 00	180 000 00	191 679 99	11 679 99
Licenses and permits	62 100 00	62 100 00	52 327 66	(9 772 34)
State revenue sharing	250 000 00	250 000 00	262 555 35	12 555 35
Charges for services	34 000 00	34 000 00	36 963 90	2 963 90
Interest	14 000 00	20 000 00	32 086 57	12 086 57
Special assessments	175 000 00	175 000 00	172 537 00	(2 463 00)
Miscellaneous	46 900 00	46 900 00	23 726 10	(23 173 90)
Total revenues	<u>762 000 00</u>	<u>768 000 00</u>	<u>771 876 57</u>	<u>3 876 57</u>
Expenditures:				
Legislative:				
Township Board	10 300 00	10 300 00	10 100 00	(200 00)
General government:				
Supervisor	17 200 00	17 700 00	17 420 00	(280 00)
Elections	6 000 00	8 000 00	6 121 23	(1 878 77)
Assessor	20 500 00	20 500 00	18 333 34	(2 166 66)
Clerk	17 200 00	17 200 00	16 887 91	(312 09)
Board of Review	2 000 00	2 000 00	1 043 00	(957 00)
Treasurer	17 200 00	17 200 00	16 700 00	(500 00)
Building and grounds	34 000 00	42 000 00	39 581 60	(2 418 40)
Unallocated	133 000 00	106 500 00	83 793 02	(22 706 98)
Public safety:				
Law enforcement	40 000 00	78 000 00	75 278 92	(2 721 08)
Fire protection	95 000 00	95 000 00	83 077 72	(11 922 28)
Inspection	34 000 00	35 000 00	24 228 05	(9 771 95)
Planning and zoning	12 000 00	12 000 00	10 938 20	(1 061 80)
Public works:				
Highways and streets	35 000 00	35 000 00	25 914 27	(9 085 73)
Drains	3 000 00	28 000 00	23 736 81	(4 263 19)
Sanitation	155 000 00	155 000 00	149 787 50	(5 212 50)
Other:				
Retirement plan	30 000 00	30 000 00	27 702 55	(2 297 45)
Insurance	35 000 00	35 000 00	30 810 00	(4 190 00)
Capital outlay	20 000 00	20 000 00	-	(20 000 00)
Total expenditures	<u>716 400 00</u>	<u>763 400 00</u>	<u>661 454 12</u>	<u>(101 945 88)</u>
Excess (deficiency) of revenues over expenditures	45 600 00	4 600 00	110 422 45	105 822 45
Fund balance, January 1	<u>430 000 00</u>	<u>395 000 00</u>	<u>479 617 47</u>	<u>84 617 47</u>
Fund Balance, December 31	<u>475 600 00</u>	<u>399 600 00</u>	<u>590 039 92</u>	<u>190 439 92</u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended December 31, 2006

Township Board:	
Salaries	<u>10 100 00</u>
Supervisor:	
Salary	16 700 00
Supplies	<u>720 00</u>
	<u>17 420 00</u>
Elections:	
Wages	4 445 00
Supplies	1 387 62
Miscellaneous	<u>288 61</u>
	<u>6 121 23</u>
Assessor	<u>18 333 34</u>
Clerk:	
Salary	16 700 00
Miscellaneous	<u>187 91</u>
	<u>16 887 91</u>
Board of Review:	
Wages	875 50
Miscellaneous	<u>168 00</u>
	<u>1 043 00</u>
Treasurer:	
Salary	15 001 53
Salary - Deputy	1 133 34
Contracted services	<u>565 13</u>
	<u>16 700 00</u>
Building and grounds:	
Utilities	11 273 15
Repairs and maintenance	23 828 48
Supplies	847 48
Miscellaneous	<u>3 632 49</u>
	<u>39 581 60</u>
Unallocated:	
Printing and publishing	1 474 20
Supplies	3 164 60
Clerical assistance	18 917 41
Accounting fees	2 025 00
Audit fees	7 400 00
Legal fees	15 463 08
Payroll taxes	2 772 76
Dues, conventions and conferences	8 312 80
Contracted services	100 00
Miscellaneous	<u>23 263 17</u>
	<u>83 793 02</u>
Law enforcement:	
Contracted services	<u>75 278 92</u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended December 31, 2006

Fire protection:	
Wages	63 454 50
Supplies	8 869 25
Repairs and maintenance	6 337 12
Miscellaneous	<u>4 416 85</u>
	<u>83 077 72</u>
Inspection:	
Building	16 014 75
Plumbing	4 419 30
Electrical	<u>3 794 00</u>
	<u>24 228 05</u>
Planning and zoning:	
Wages	8 128 00
Miscellaneous	<u>2 810 20</u>
	<u>10 938 20</u>
Highways and streets:	
Street lighting	22 288 96
Street repairs and maintenance	<u>3 625 31</u>
	<u>25 914 27</u>
Drains	<u>23 736 81</u>
Sanitation:	
Contracted services	<u>149 787 50</u>
Retirement plan	<u>27 702 55</u>
Insurance	<u>30 810 00</u>
Total Expenditures	<u><u>661 454 12</u></u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – ALL AGENCY FUNDS
Year ended December 31, 2006

	Balance 1/1/06	Additions	Deductions	Balance 12/31/06
<u>CURRENT TAX COLLECTION FUND</u>				
<u>Assets</u>				
Cash in bank	525 574 42	3 066 905 21	3 011 018 31	581 461 32
Taxes receivable	1 001 486 64	2 973 383 67	3 206 523 27	768 347 04
Total Assets	<u>1 527 061 06</u>	<u>6 040 288 88</u>	<u>6 217 541 58</u>	<u>1 349 808 36</u>
<u>Liabilities</u>				
Due to other funds	647 582 85	638 149 23	632 792 99	652 939 09
Due to other units	879 478 21	2 195 616 38	2 378 225 32	696 869 27
Total Liabilities	<u>1 527 061 06</u>	<u>2 833 765 61</u>	<u>3 011 018 31</u>	<u>1 349 808 36</u>
<u>AGENCY FUND</u>				
<u>Assets</u>				
Cash in Bank	44 85	54 014 93	54 039 48	20 30
<u>Liabilities</u>				
Due to other funds	8 85	44 498 57	44 487 12	20 30
Due to other units	36 00	9 516 36	9 552 36	-
Total Liabilities	<u>44 85</u>	<u>54 014 93</u>	<u>54 039 48</u>	<u>20 30</u>
<u>TOTALS – ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash in bank	525 619 27	3 120 920 14	3 065 057 79	581 481 62
Taxes receivable	1 001 486 64	2 973 383 67	3 206 523 27	768 347 04
Total Assets	<u>1 527 105 91</u>	<u>6 094 303 81</u>	<u>6 271 581 06</u>	<u>1 349 828 66</u>
<u>Liabilities</u>				
Due to other funds	647 591 70	682 647 80	677 280 11	652 959 39
Due to other units	879 514 21	2 205 132 74	2 387 777 68	696 869 27
Total Liabilities	<u>1 527 105 91</u>	<u>2 887 780 54</u>	<u>3 065 057 79</u>	<u>1 349 828 66</u>

CAMPBELL, KUSTERER & CO., P.C.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

January 12, 2007

To the Township Board
Charter Township of Portsmouth
Bay County, Michigan

We have audited the financial statements of the Charter Township of Portsmouth for the year ended December 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Charter Township of Portsmouth in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Charter Township of Portsmouth
Bay County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

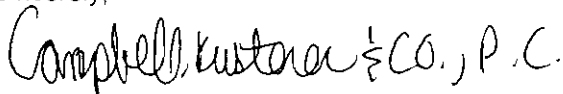
We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated December 31, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,



CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants